State of the Nation 2016: A dose of reluctant realism

Preparing the nation for tough economic times

In a State of the Nation address focused on the economy, President Zuma stated that a 'resilient and fast-growing economy' is at the centre of government's policy. A clear pro-growth statement was made, dispelling notions of ideological drift within the ANC. Though global economic conditions and the analogous experiences of other commodity-exporting economies got some airtime, Thursday's speech also highlighted the domestic constraints that have stifled growth, such as energy shortages and labour unrest.

The speech was also calculated to pave the way for some difficult announcements in the Budget with regards to anticipated tax increases and expenditure cuts. In a show of government restraint, the President announced some symbolic measures to reduce overseas trips, spending on functions and urged that more should be done to curb wasteful expenditure.

"It is about doing things differently and also acting on what may not have been acted upon quickly before."
(President Zuma, SONA 2016)

The threatened sovereign downgrades by ratings agencies require an effective turn-around strategy, the President argued. But when he asserted that the country remains an attractive investment destination, he undercut the realist message that the speech was meant to convey. Though portfolio flows were not uncharacteristic in December 2015, business and consumer confidence is very low, the currency is volatile and foreign direct investment figures may take a knock in future. The President announced measures to support investors including a one-stop shop, a commitment to review red tape and remove legislative and regulatory blockages. These are well-worn themes in government policymaking and refer to measures that should be taken for granted in a sophisticated middle-income economy.

The speech tackled difficult issues, but shied away from reflecting on trigger events. Thus currency volatility was discussed within the global context, but without reference to exacerbating events due to the handling of the Treasury cabinet post. State-owned enterprises were discussed, successes paraded, but the likes of South African Airways or the Public Rail Agency of South Africa were the elephants in the room.

The Presidential Review on State-Owned Enterprises released its report in 2012. Four years later, the president promised that its recommendations on state-owned company reform would be implemented.

The Nine Point Plan to ignite the economy

Some notable successes have been scored under the 9-point plan to revitalize the economy, which was presented in last year's SONA. Energy supply has been stable since last August and investment continues to pour into the Renewable Independent Power Producer Programme. Industrial relations in the mining sector, have calmed down, including in the platinum belt. The 'oceans economy' initiative has attracted some developments, including a R7bn public-private partnership to develop port infrastructure, the launch of a fuel storage facility in Cape Town and the registration of 2 vessels and a tanker under the South African flag.

The many outcomes of the nine-point plan that are listed in the speech should be taken in context. The manufacturing sector recorded 0% growth in 2015. Mining production fared well for the year (up by 3.3% over 2014) but recorded negative year-on-year growth rates for the last four months of 2015. The unemployment rate hasn't budged and sits at 25.5%. Land reform is difficult and 27 proposals from commercial farmers to implement the 50/50 relative rights scheme is not encouraging in the context of a pilot target of 50 farms announced in SONA 2015 and the universe of about 40 000 farms in the country.

The speech contained some reassurances. The President stated that the nuclear build will be at the scale and pace within the country's means. The minimum wage should not be set at a level that undermines employment and small enterprises. There might be another back-tracking move on the cards, with discussions with unions under way over the derided Tax Amendment Act on provident funds the President signed into law last December.

The National Development came up infrequently. There was no resounding confirmation of its status or even a discussion of the plan of action of newly appointed commissioners. The most notable reference to the plan was, in fact, to mention that the growth rate target of 5 percent by 2019 will not be attained.

The speech ended with a call to redouble efforts to remove domestic constraints to growth. It was a state of the nation address that hit all the right topics. But it's not clear if the government appreciates that last year's nine-point plan did not exactly set the economy on fire. The Budget presented later this month will provide further guidance on whether government can rise to the economic challenges plaguing the country.

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